

January 11, 1984

LETTER 878

Dec. 30 DJIA 1258.64; PTI 1763; A-D Ratio -15.88
Jan. 6 DJIA 1286.75; PTI 1783; A-D Ratio -14.76

1984: Many do not agree with me, but I continue to state that a major bull market is in force on Wall Street. Although the advance-decline ratio topped out in mid-year 1983 (June 16, to be exact) the leading stock averages have done quite well. One of my bull arguments is that if this was a bear market (instead of a bull) and the A-D ratio had topped out in mid-year, the various stock averages would now be in shambles. But that just hasn't happened.

For instance, the rundown for the major averages during 1983 shows the D-J Industrials up 20%, D-J Transports up 33%, D-J Utilities up 10%, S & P 500 up 17%, NYSE Index up 17%, Amex up 31%, NASDAQ Index up 20%, Value Line Index up 22%. Not too shabby.

THE PICTURE: We live in a tough world, economics is a tough study, and writing a stock market letter is a tough business. One of the most difficult things about writing a stock market letter is reading all the literature that comes in daily. I would guess that I spend from three to six hours every day of the week just reading, reading and trying to absorb what I read.

The difference in opinions is literally mind-blowing. For instance, last week I received the *Industry Forecast* report written by the Levy's of Chappaqua, NY. These men are highly regarded and have made many fine calls on the economy. Today they say, "Corporate profits, now rising, will decline during the first half of 1984." They add, "Before the end of the first half, the economy will be nearing the brink beyond which is recession." Now that's a bit scary.

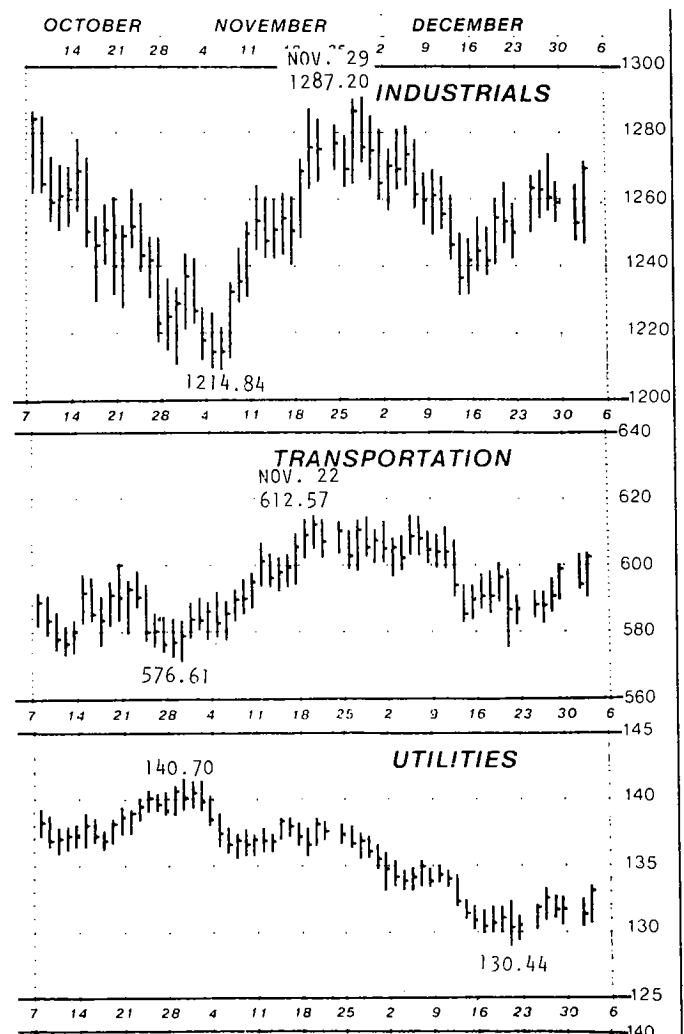
But in the last Letter I quoted Gary Schilling (another highly respected economist) to the effect that corporate profits would be booming in 1984 and probably throughout the next five years.

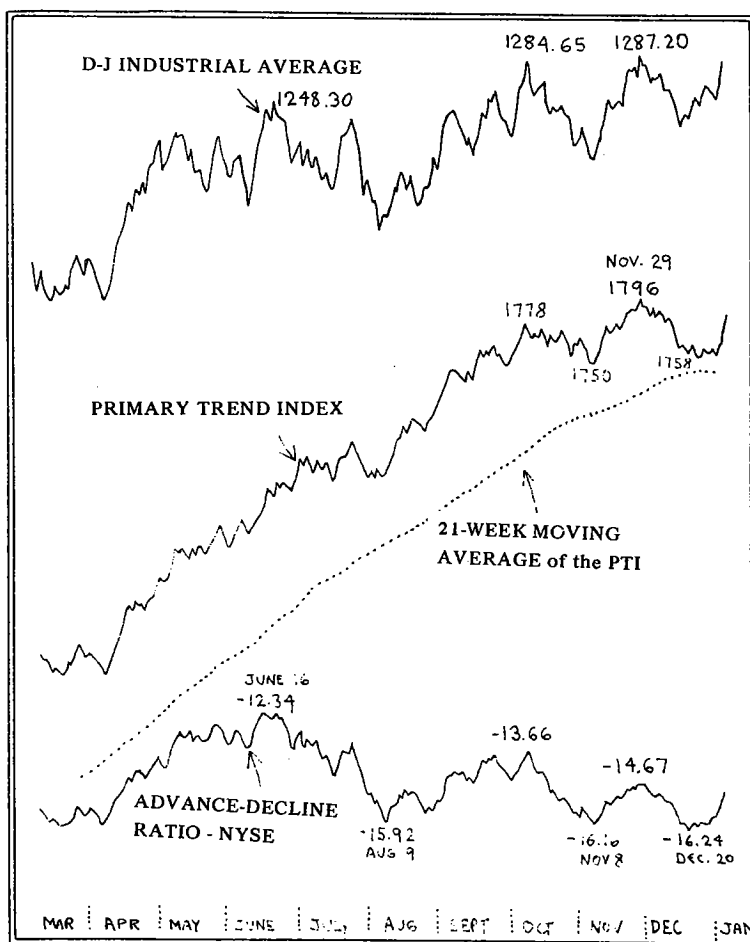
Or try this one for size. I just read an interview with super-investment guru — John Templeton. Says he, "We do not think that the world has solved the problem of inflation. We expect more inflation over the next ten years than there has been in the last ten." Depressing, but now comes C.V. Myers' highly respected *Myers Finance & Energy Report*. Says C.V., "The standard of living is travelling now in the direction of reality. That is, to meet the competition. That is, to come closer to the standards of living as they exist in Japan, France, Germany and all around the world. Put it all in one word and it spells **DEFLATION.**"

And these are very bright guys writing these items. Bright guys who disagree violently with each other. Bright men who can make a great case for what they think is going to happen. How can it be? How can very knowledgeable men disagree so completely on what is coming up?

Easy. It's as easy as five market technicians looking at the same stock market chart and presenting five different interpretations. Because in the end, the art of the stock market or the art of interpreting economic data is just that—an art. It's not a science. Collecting the economic data or designing the charts may be a science—but interpreting them is another story. And the "answer," the analysis is strictly in the eyes and brains of the beholder.

As far as we investors are concerned, there is another problem. Assuming we're lucky enough or smart enough to read the "right economist," how do we know that the stock market hasn't already discounted his prediction? For instance, if the Levy's are right about sagging profits for the first half of 1984, how do we know that this trading range market of the last six months hasn't already discounted the Levy's forecasts? The answer is that we don't.





And that is why I study the *action of the stock market* rather than try to unfathom the economic situation and then forecast the action of the market based on the market's reaction to my economic scenario. All right, having said that I want to go into what I see happening in the stock market now.

In recent Letters (and Letters over the past year, for that matter) I have made the case for a major and continuing bull market. I'm obviously still of that opinion. In the last Letter I presented my bullish arguments from the major or long-term standpoint. Now I'll include a few shorter-term observations.

First, let me state that there have in the last fifty years (prior to 1983) been only 16 individual months in which the short interest ratio on the NYSE was over 2.00. Never during or following any of those periods did the stock market suffer a serious or major decline. There were shakeouts following months in which the SIR was over 2.00, but these shakeouts were always followed by major rises.

For instance, the short interest ratio (SIR) was 2.00 in January, 1982. From January to June of that year the Dow moved within a trading range bordered by 869 on the upside and 795 on the downside. In June the SIR again presented a high figure, 2.05. Then during mid-July to mid-August the market suddenly swooned, with the Dow dropping from 833 to 776 (a drop of only 6%, but the Dow did produce a scary breaking of the previous 7-month trading range). That final wash-out was followed by the spectacular rise of 1982-83 in which the Dow climbed to its October 1983 high of 1287.20.

We have now witnessed four consecutive months in which the SIR was over 2.10. This has never been seen before in stock market history. And it is highly bullish. Now I am not saying that we won't get a shakeout (as we did in 1982), and the shakeout could even come in the next few weeks or months. But this is a bull market, and the money will be made on the upside, not the short side.

Here are a few interesting and bullish technical observations. On January 3 my 5-day moving average of new highs and lows (NYSE) switched over in favor of new highs, a healthy sign. On January 4 the PTI was at 1767, its highest level since December 14, and this is another positive sign. . . . On January 4 and 5 very heavy NYSE volume came in on the UPSIDE. In other words, volume had been drying up on the decline (which puts a squeeze on the short sellers), but when volume finally exploded in this market, the high volume was accompanied by sharply higher prices. **VOLUME GOES WITH THE TREND.** On January 5 my cumulative most-active stock index rose to a new bull market high, a bullish sign. The new high in the CMAS indicates that the big money is buying (rather than selling).

Again, on January 5 the positive volume index (index which shows the A-D differential on days of expanding volume only) hit a new bull market high. And finally, on January 5 my on-balance-volume index for the NYSE recorded a new bull market high (on 159 million shares, a record day for NYSE volume).

How about the Primary Trend Index (PTI)? The PTI has lagged the Dow over the past month (see page 2 chart), but the important thing is that the PTI (throughout all the market weakness of the past six months) never broke below its 21-week moving average! This was a remarkable performance, and it went a long way towards keeping me bullish on the major trend of the market.

I have stated over and over that I want my subscribers on the right side of the PTI. If the PTI is in a rising trend (and it still is) I want us to be invested **WITH** the market. If the PTI is in a declining trend, I want us to be basically out of the market and in cash, T-bills or money market funds.

The beauty of the PTI is that anyone can follow it—the only prerequisite being that you must know up from down. My rule is that the PTI is in a rising trend when it is above its 21-week moving average, it is in a declining trend when it is below its 21-week MA. The PTI climbed above the 21-week MA in October, 1982, and it has held above it ever since.

The PTI is based on a formula which I compute daily. I don't vary the formula, I don't argue, dissect or juggle the PTI. I must admit that if it weren't for the PTI I would probably have been "scared out" or run out of this market sometime during the last six months. But the PTI (up to now) has said that we sit tight with our no-load funds, our mutual funds, our stocks, etc.

Observation: In Merrill Lynch's excellent weekly market letter, they talk about their "maturing cycle concerns" which include "lagging breadth, low institutional cash, deteriorating margin debt quality, speculative sector past a major peak, consumer cyclical leadership extended and faltering, and the peak rate of gain in earning likely to be in the first quarter of 1984." I'm not arguing with any of this, but how do you factor it all into the stock market? This is a bull market, and any market (bull or bear) takes a million facts and figures into account. We'll stick to the bull market until the market itself says "get out." And it

hasn't done that yet, despite your worries, my worries and Merrill Lynch's worries.

DOW: In 1981 the earnings on the 30 Dow Industrials were \$113.71 and dividends were \$56.22. In 1982 Dow earnings plunged to \$9.15 (because of huge deficits in American Can, INCO, Int. Harvester, US Steel and Woolworth) and dividends slipped to \$54.14. In 1983 earnings for the Dow climbed to \$89.90 and dividends rose to \$55.95. *Value Line's* estimates for 1984 are Dow earnings of \$140.00 and dividends of \$62.00.

In a big bull market (where enthusiasm reigns) it is almost normal for the yield on the Dow to get down into the low 3% range. If this is true and if *Value Line's* cumulative \$62 dividend for the Dow is correct, we could see a Dow over 1800.

An awful lot depends on sentiment, and big bull markets are a product more of swings in price/earnings ratio than they are in actual earnings. During the entire period of 1955 to 1973 (18 years) the Dow never sold below 12 times earnings (the high P/E was 22.9 in 1961). If *Value Line* is correct and the Dow earnings next year are \$140, a 12 P/E could take the Dow to 1680. If the Dow were to sell at the enthusiastic 1961 P/E or 22.9 then at \$140 earnings it could take the Dow to 3200.

Right now, because the many Dow stocks are just emerging from recession-type earnings, the P/E ratio for the Dow is a high 22.4; it was 128 in recession-racked 1981. Normally P/E's come down as earnings rise, but the big question is what price the market will pay for rising earnings in 1984. If the market sees a boom and sustained earnings ahead (into say 1985 and 1986) then the P/E's will stay on the high side. That's what makes a big bull market.

Question: What about tax-free funds?

Answer: I like them for high tax bracket people. I prefer the tax-exempt money market funds. These funds invest in short-term tax obligations, do not fluctuate and provide a yield of around 5% at present. Many of the major mutual fund families offer these funds as do many major brokerage houses.

Once you get into the longer-term tax-exempt funds, you can get yields in the 9% to 10% area, but you also are playing the muni market. Thus, you can take a loss based on the swings of the bond market. In these times of wide swinging interest rates, I would prefer to avoid the longer-term muni funds.

I have the same opinion of the muni unit trusts, which are collections of muni bonds usually sold in units of \$5,000 or even less. Here one usually pays a load charge of 5 to 8%, and thus you take a built-in loss if you have to sell before the unit matures.

As far as individual muni bonds, there are many excellent choices, but one problem is that munis can be very illiquid in poor markets, and if you want to bail out in a falling bond market it can be a hair-raising experience when dealing in munis (particularly when the bid-and-asked spreads widen to 4 or 5 points!).

The US Treasury bonds (taxable) on the other hand enjoy a very liquid market, and you can sell almost any amount of T-bonds at a moment's notice.

Question: Russell, you have recommended many mutual funds, but you seldom mention the closed-end funds. Why not?

Answer: It's just an omission on my part. The closed-end funds are managed funds. They are closed in that they do not take in new money when you buy them (unlike a mutual fund, which takes in your money and issues you new shares). The closed-end funds trade like any other stock, and when you buy a closed-end fund you are simply buying shares in the fund from another stockholder who is selling them.

Closed-end funds sell at whatever level the market prices them, and this is usually below net asset price. The reason they sell below assets is that they are not promoted or "pushed" as are most mutual funds. But today the below-asset gap has narrowed on most closed-end funds, and a few are now even selling above net assets. The largest closed-end fund is Tri-Continental with assets over \$1 billion. This fund is traded on the NYSE and it is one that I have always liked (I own some). I also like Lehman, General American Investors and Adams Express. All of these closed-end funds pay out regular dividends plus capital gains. When you buy or sell a closed end fund you pay regular commissions just as you do for any common stock (the four funds named above all trade on the NYSE).

INVESTMENT POSITION: It's a bull market, and the bull remains in the box. We sit with the recommended mutual funds. Many subscribers have written for more advice and information



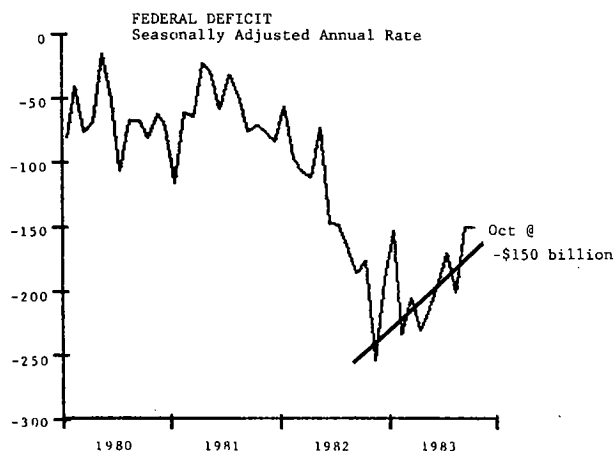
on selecting mutual funds. I receive almost all of the mutual fund reports and advisories, and while I don't want to leave any out there are two that are particularly helpful. They are *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) and *No Load Fund X* (235 Montgomery St. San Francisco CA 94104). Both of these fine services list funds that are outperforming the field, and these are the funds I recommend staying in or switching into.

For new money going into funds now I like Mutual Shares (often recommended here) 800/221-7864, Penn Mutual Fund 800/221-4268, Guardian Mutual, 212/850-8300. Fidelity got greedy and added small load charges to many of their funds. I have recommended Fidelity's Magellan and Select Technology funds repeatedly, and both of these funds have done extremely well. I don't know (in view of the load charge) whether I'll keep recommending them (it's not their performance that bothers me, it's their belated charges).

EVERYONE KNOWS: The biggest "old news" in the US is that the Federal deficits are horrendous. I started writing about the deficits in the late 70s and around the beginning of 1983 I finally got bored (and I'm sure my subscribers were bored) with my own deficit warnings. Now, EVERYONE is a deficit expert, from the local butcher to *Time* and *Newsweek*. Gad, I mean last week even public TV had a doomsday program on the deficit, as you can see from this clip from our local newspaper.

● "Doomsday Scenario: Banking on the Brink."
Channel 15 at 6 p.m. It's reality time as the world banking picture is studied. Paul Volker is interviewed.

So what's actually happening? Well, the surprise seems to be that the deficit for 1984-85 is going to be LESS than most people expect. Cyrus J. Lawrence Inc. (115 Broadway, NYC 10006) monitors the deficit situation carefully, and their latest bulletin is headlines, "Very Good News on the Deficit is Evolving."



Their chart (above) shows what they mean. Lawrence indicates that the deficit is now running at around a \$150 billion rate, which is much less than expected.

They also show that Federal outlays held steady throughout 1983, after years of increase. And receipts to the Government are up almost \$100 billion in 1983, from \$540 to \$640 billion (through October).

Now a deficit of \$150 billion is an improvement, but it's still far too much. In view of that, I'm presenting the next section in the hopes that maybe I can do something about it.

TAXES: I don't know exactly who they are, but I do know that I have a number of subscribers who are close to the President. A few years ago (when I was writing in almost every issue about the Federal deficits) I published a letter that Jimmy Carter wrote to a Congressman. In that letter he mentioned Dow Theory Letters, which demonstrated to me that when it's important enough, one or more of my readers can catch the President's ear—on a personal basis.

My current message is simple enough, and I believe it's important enough. I read where Mr. Dole is now pushing for a 10% surcharge on the current income tax. I read where other Washingtonians are dreaming up various ways to further soak the rich. And I cringe, because I believe that (1) the rich are being soaked enough, (2) tax shelters and tax free investments and tax avoidance (cont. on pg. 5)

CLEVER CONTRARY THINKING: I used to correspond with Humphrey Neill, the "father of contrary opinion" and the man who first codified the art of contrary thinking and used this method as a major investment aid. Of late, I have been writing to the effect that too many people are now "contrary opinion experts," and the phrase is being bandied about by people who have little or no feeling about the whole subject.

But a few weeks ago I received a report from Kiril Sokoloff (*Street Smart Investing*). I was so taken by the observations and historical perspective of this fine writer that I asked Kiril if I could include his contrary thinking piece in Dow Theory Letters. Kiril said "OK" and here it is. I think it is a fine piece of work, instructive, and the last paragraph is particularly worth studying.

THE POWER OF CONTRARY THINKING

Warren Buffett once said that people should limit the number of investment ideas they try in a lifetime to one a year or even less. In other words, to be successful, you only have to do a few things right, so long as you can avoid making big mistakes.

By contrast, many forecasters today feel that to stay in business they must forecast frequently and on many subjects. Paradoxically, the majority of these subjects are inherently "unpredictable", and hence, the dismal record of the forecasting profession comes as no surprise.

An alternate strategy is to make one or two forecasts a decade (perhaps less) and to make them only when there's a high degree of predictability. The only reliable forecast we know of is that a universally accepted view about the business or investment outlook will be wrong. In other words, adopt a different or "contrary" view when opinion is extremely one-sided.

Of course, nearly everyone in the financial community pays lip service to contrary thinking, but few really practice it. It requires such an independence of mind and disdain for popular opinion that by its very nature it can only be embraced by a few persons.

The easiest and simplest measure of employing contrary thinking is a close study of best-selling business and investment books. The fifty-year record of these books as a contrary indicator is as close to infallible as you can find. For example, in 1924, Edgar Lawrence Smith wrote a book entitled *Common Stocks As Long Term Investments*, which came to the then revolutionary conclusion that stocks were excellent long-term investments. Ironically, the book only became a best seller in the summer of 1929, just months before the crash.

Between 1932 and 1968, the country had the greatest bull market in stock market history, but it wasn't until 1968 that an investment book made the best-seller list. Ironically, *The Money Game* by Adam Smith became the number-one best seller on July 7, 1968, exactly five months before the market topped out. While the drop in stock prices between 1968 and 1974 wasn't as severe as the 1929-32 crash, many stocks lost 70%-80% of their value.

The next important sell signal in a market came in April 1974, when Harry Browne's *You Can Profit From A Monetary Crisis* became the number-one national best seller. In that book, Browne recommended gold and silver as well as foreign currencies. Gold made a double top that year at just under \$200 an ounce in March and again in December, but gold shares hit their peak in April. By mid-1976, gold had fallen to \$103 an ounce, and an index of South African gold shares had lost 85% of its value.

The peak of inflation and the forthcoming shake-out in inflation hedges were forecast by a myriad of popular "inflation forever" books in 1979-81. For instance, the popularity of Howard Ruff's *How To Prosper During The Coming Bad Years*, a 1979 best seller, suggested to contrarians that gold and silver prices had peaked in January 1980.

Crisis Investing: Opportunities And Profits In The Coming Great Depression by Douglas Casey was the best-selling book of 1980, attaining the number-one position in the week of September 21, 1980. The book recommended such classic inflation hedges as gold, silver, and natural

concepts are now the hottest items around, (3) there is no really big money left in the whole "tax the rich" or "tax energy" direction.

But the major point is this. The Reagan Administration is now in position to pull off the political coup of the decade. And here is how they can do it. Coup No. 1 is shown in the preceding section where we see that the deficit is running at \$150 billion rather than \$200 billion. But I'm talking about cutting the deficit to or around ZERO! That would be super-coup No. 2.

How can they do that? There is only one way, and that is with a national sales tax. Consumption in this nation is roughly \$3 trillion. Reagan should propose a national sales tax of 5%. Such a tax would bring in near \$150 billion and it would virtually ELIMINATE the Federal deficit! Everybody would pay the 5% tax: it would be a tax to wipe out the deficits, and it could be presented in a very palatable and patriotic way.

With inflation currently down near the zero point, a 5% national sales tax would hardly be felt. After all, people would not scream if inflation was currently 5%, so a 5% sales tax should not work too great a hardship on the American public. Actually, the national sales tax could be lowered on food or even eliminated on food items.

Do you know what would happen if the US deficit were eliminated? The bond market would go through the roof and long-term bonds would probably rise 20% to 35%. Hundreds of billions of dollars would be added to the value of citizens' assets (via funds, pension funds, mutual funds, etc.). In turn the stock market would explode, and overnight Reagan would be a national hero, actually the hero of the Free World, since if US interest rates collapsed, the world interest rates would also collapse. And obviously, the onus of the world debt would be tremendously reduced. The psychology of the public would in turn take a huge leap towards optimism.

A 5% sales tax would also, to some extent, inhibit consumption (which is good), and it would give Americans the feeling (for the

resource stocks. Oil stocks peaked two months later, at the end of November, and gold and silver hit their post-1980 recession peaks of around \$725 and \$22 an ounce, respectively, in the last week of September.

The Coming Currency Collapse by Jerome Smith, which was about the total destruction of the U.S. dollar, became a best seller in late-1980, just as the dollar began a remarkable three-year bull market. The 1981 peak in interest rates was suggested to contrarians by William E. Donoghue's Complete Money Market Guide, which became a best seller in March 1981, only five months before interest rates peaked.

More recently, the demise of the high-technology stocks was indicated by the popularity of John Naisbitt's Megatrends, which became the number-one best seller on March 20, 1983. Megatrends, among other things, predicted that the industrial age was dead and that we would now enter a new technology or information age. Since their peak on June 24, many high-technology issues have fallen 50% or more.

Why does contrary thinking work? The easiest answer is that it works because of nature's immutable laws. Biologists tell us that life itself innately seeks individuality. The reason for this is simple: if all the organisms of a particular species were identical, how could it respond to change, resist new diseases, make discoveries, or advance?

Arnold Toynbee, the noted historian, said it well in his book, Civilization On Trial: "Creation could hardly make any headway at all if each new form of creature were not represented by numerous eggs distributed among numerous baskets. How else could a creator, human or divine, provide himself with sufficient material for bold and fruitful experiment and with effective means of retrieving inevitable failures?" Thus, nature has decreed that extreme sameness of thinking provides its own self-correcting mechanism.

The bottom line: The widescale acceptance of a coming depression in 1979-81 suggested we would eventually have a major economic boom. The popular belief in the late 1970s that inflation would last forever implied inflation was ending. (See Is Inflation Ending? Are You Ready?, McGraw-Hill 1982, co-authored by economist Gary Shilling and Kiril Sokoloff.) Finally, the current widespread belief that the industrial age is over indicates that some of the best investment opportunities lie in the out-of-favor heavy industrial companies. Interestingly, since this summer, these stocks have been acting better than the rest of the market.

If these contrary "forecasts" work out, you won't need to make another prediction until a stock market book reaches the best-seller list, at which time it will be time to sell.

December 1983

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first time in memory) that the US Government had its finances under control. The fact is that the American public now fully understands the meaning of huge Federal deficits, and it would be only too ready to do something about it even if it meant sacrifices.

So I am appealing to my subscribers in high places. Get this report to Mr. Reagan. If he sees what I am saying and goes along with it, then "The Great Communicator" will have his chance at an historic coup. And his re-election (in my opinion) would be in the bag. American prosperity would be in the bag too.

NOTES & QUOTES: Remember all the talk (hopes) about Afghanistan being the Soviet's Vietnam. Well, forget it, it's not happening. This article from last week's NY Times provides valuable insights into the Afghan situation. The conclusion: the Soviets are in Afghanistan—for good.

that, whatever else it is, Afghanistan is not the Russians' Vietnam. The Soviet Union faces many military and political problems in the country, but none are of a magnitude to suggest that the Russians face military defeat or political turbulence.

Militarily, the Soviet Union has made what intelligence analysts in the United States and in NATO capitals regard as important strategic gains.

As Henry Bradsher says in "Afghanistan and the Soviet Union," a publication of Duke University, the threat, real or imaginary, of the establishment of an anti-Communist, Islamic country on the borders of the Soviet Union's Moslem republics in Soviet Central Asia made the Russians move. The result, analysts say, is an important strategic and political gain for Moscow.

A Soviet Eye on the Gulf

From the military standpoint, Soviet gains are even more impressive, military and diplomatic analysts agree. The Soviet Air Force has taken over and expanded the military air bases at Kandahar, Shindand, Farah, Kabul, Bagram, Jalalabad and Herat. Soviet reconnaissance aircraft and bombers, consequently, can fly over the Persian Gulf and the Arabian Sea at will and monitor American and other Western naval operations in those areas.

A senior NATO officer said he regarded this "expansion of the Soviet air

reach" as Moscow's most important military gain. In a crisis, he said, Saudi Arabia and other Persian Gulf countries might make air bases available to Western air power but, he emphasized, "the Russians are there now." Only Oman, he predicted, would have the courage to provide bases in a crisis.

Analysts think that from the Kremlin's viewpoint the most important result of the occupation may be the closing of Wakhan, the panhandle of northeast Afghanistan that borders on China. Not only has the frontier been closed and heavily fortified, but the indigenous inhabitants of the valley have also been moved and settlers from Soviet Central Asia have moved in to take over their lands.

Sign of Rebel Weakness

Symptomatic of the extent of Soviet control is that neither the expansion of the air bases nor the clearance of the Wakhan corridor has encountered the bitter resistance that insurgent statements issued in Islamabad and New Delhi might lead analysts to expect.

In fact, one insurgent leader acknowledged in an interview that an attack on the Kandahar base, which he had scouted, was well beyond the resources of any one of the insurgent groups or, in the unlikely event that they acted in concert, "all of them."

the average advance for the 3 days was a sensational 1226). Such a three-day burst is what I term a "momentum thrust." Momentum thrusts usually indicate that the major trend of momentum has moved in the direction of the thrust—in this case, up.

GOLD: My three-week moving average of the ratio between gold and the NYSE Stock Index broke to 400 this week, its lowest level since 1980. When common stocks outperform gold on a relative strength basis, such action has never constituted a good background for the precious metals.

One of the most remarkable phenomena to me is the persistent bullishness regarding the gold shares, despite the dismal performance of bullion. On the slightest indication of firmness in gold, the gold shares rally. And that tells me that there's still too much optimism in the hard money camp, far too much to suggest of a real bottom in the precious metals.

My 50-week (exponential) moving average for gold is 407. Very simply, I would want to see bullion close decisively above 407 before I was even tempted to be bullish on the metal. Of course the other side of the coin is that (on the downside) I would begin to get interested in gold if it continued to slide with pessimism building. But the current stubborn reservoir of optimism ("inflation will return with a vengeance") bothers me. For a real bottom in the precious metals, I'd rather hear the experts tell me that "gold will never rise again—at least not in our lifetime."

NOTICE: The Post Office uses a new machine called an "Optional Character Reader." Well the new machines tore the addresses off about 400 of the last Letter, and we got 'em all back. So if you didn't get your last Letter please call or write and we'll send one to you immediately. We're sorry about it, it wasn't our fault. The PO tells us that they're trying to adjust these machines so that they work properly, and they also tell us that it has been a national problem. Why the PO didn't thoroughly check out the machines in the first place I don't know. But then, I don't understand most of what our Government does.

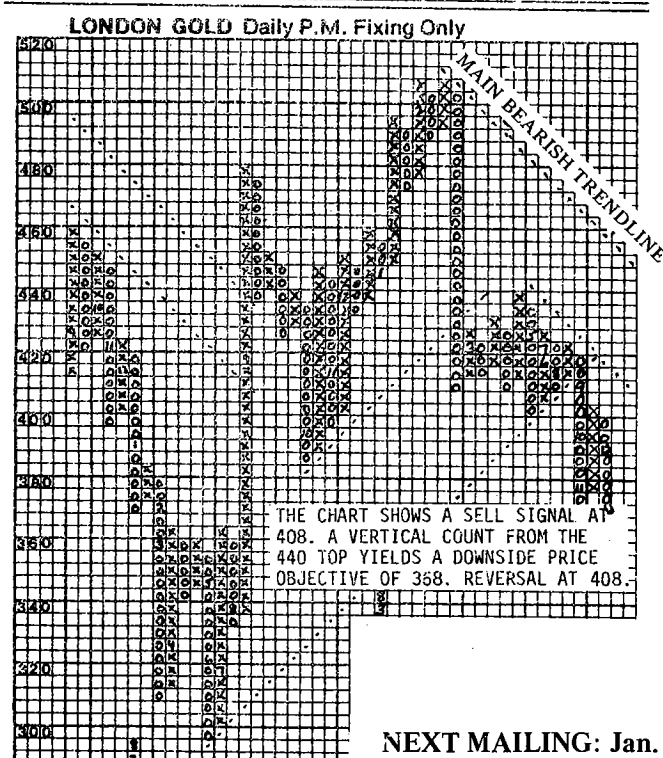
LATE NOTES: It is also interesting that it is now common to see the market open lower, drift for an hour or so on dwindling volume. Then when no follow-through appears on the downside, the market firms up (as the shorts are squeezed) and by the final bell the market is higher. This is typical bull market action, a sort of "grinding upwards" as buyers come in following whatever selling hits the tape at or near the opening.

Meanwhile, my PTI closed the week (week ending Jan. 6) at 1783, a safe distance above its 21-week moving average which is currently at 1748. Remember, a bull market climbs in its own way—on its own time. The bull market isn't there to please traders, it isn't there to please you or me. A big bull market usually ends up pleasing patient investors. On the other hand, I've seen people trade through a whole bull market and end up losing money.

* *

On January 4, 5 and 6 we saw three consecutive days in which daily advances on the NYSE were better than 1000 (actually,

Near the close, Friday (Jan. 6) gold and silver broke badly with the spot gold price around 370 and silver near limit down. If you haven't faced it yet, you better do so. The precious metals are in a continuing bear market. That's the operative fact, and all your wishing and hoping won't change that fact. I've said this before, but I'll repeat it: my point & figure projection or count is for a gold price of around \$300. (chart of gold courtesy of Chartcraft, Larchmont, NY).



NEXT MAILING: Jan. 25